

**MINUTES
of the
SECOND MEETING
of the
NEW MEXICO FINANCE AUTHORITY OVERSIGHT COMMITTEE**

**August 26-27, 2013
Padre Martinez Hall
University of New Mexico-Taos Branch
Klauer Campus
Ranchos de Taos**

The second meeting of the New Mexico Finance Authority (NMFA) Oversight Committee was called to order by Representative Patricia A. Lundstrom, chair, on Monday, August 26, 2013, at 9:08 a.m. at the Klauer Campus of the University of New Mexico (UNM) in Ranchos de Taos.

Present

Rep. Patricia A. Lundstrom, Chair
Rep. Alonzo Baldonado
Rep. Ernest H. Chavez
Sen. Lee S. Cotter
Rep. Roberto "Bobby" J. Gonzales
Sen. Ron Griggs
Rep. Jimmie C. Hall
Rep. Dona G. Irwin
Rep. Jane E. Powdrell-Culbert
Rep. Debbie A. Rodella
Sen. John C. Ryan
Rep. James P. White

Advisory Members

Sen. Sue Wilson Beffort
Rep. Sharon Clahchischilliage
Rep. Anna M. Crook
Rep. Kelly K. Fajardo
Rep. Mary Helen Garcia
Rep. Yvette Herrell
Sen. John Pinto
Sen. Nancy Rodriguez
Rep. Edward C. Sandoval (8/27)
Rep. Sheryl Williams Stapleton

Absent

Rep. Joseph Cervantes, Vice Chair
Rep. Candy Spence Ezzell
Sen. Phil A. Griego
Sen. Michael Padilla
Rep. Henry Kiki Saavedra
Sen. William P. Soules
Rep. James R.J. Strickler

Sen. Jacob R. Candelaria
Rep. Brian F. Egolf, Jr.
Sen. Stuart Ingle
Rep. Emily Kane
Sen. Timothy M. Keller
Rep. W. Ken Martinez
Sen. George K. Munoz
Sen. Bill B. O'Neill
Sen. Mary Kay Papen
Sen. William H. Payne
Sen. Clemente Sanchez
Rep. Thomas C. Taylor
Rep. Monica Youngblood

Guest Legislator

Sen. Richard C. Martinez

(Attendance dates are noted for members not present for the entire meeting.)

Staff

Lisa Sullivan, Staff Attorney, Legislative Council Service (LCS)

Tessa Ryan, Staff Attorney, LCS

Alexandria Tapia, Research Assistant, LCS

Guests

The guest list is in the meeting file.

Handouts

Handouts are in the meeting file and posted online at http://www.nmlegis.gov/lcs/committee_handout_list.aspx?CommitteeCode=NMFA&Date=8/26/2013.

Monday, August 26**Call to Order, Introductions and Welcome**

Representative Lundstrom welcomed all present and announced that Representative Gonzales would chair the morning segment of the meeting.

Several local representatives introduced themselves and welcomed the committee to Taos. Daniel R. Barrone, chair of the Taos County Board of Commissioners, expressed gratitude for the NMFA's assistance in funding the new Taos County Administrative/Judicial Complex. Barbara Wiard, former chair of the Intergovernmental Council, identified the council, which comprises members from 13 governmental entities, many of which the NMFA has assisted: Taos County; the Town of Red River; the Town of Taos; the Village of Angel Fire; the Village of Eagle Nest; the Village of Questa; the Village of Taos Ski Valley; the Pueblo of Picuris; the Pueblo of Taos; Peñasco Independent School District; Questa Independent School District; Taos Municipal School District; and UNM-Taos. Dr. Kate O'Neill, executive director of UNM-Taos, highlighted that UNM-Taos educates 1,700 students, has nationally accredited nursing and early childhood education programs and collaborates with nine high schools to award students dual credit. Mario Suazo, business operations director at UNM-Taos, Mayor Darren Cordova of the Town of Taos and Leandro Cordova, finance director of Taos County, also introduced themselves and welcomed the committee.

Representative Gonzales commented that UNM-Taos provides the Taos area with affordable post-secondary degrees and continuing education programs and that the branch is growing to provide additional opportunities.

NMFA Chief Executive Officer (CEO) and Internal Auditor Search

Nann Winter, chair, NMFA board, and John Gasparich, interim CEO, NMFA, updated the committee on the status of the open CEO and internal auditor positions in the NMFA.

Ms. Winter and Mr. Gasparich distributed a handout with a suggested recruitment schedule for hiring a CEO and a brochure advertising the CEO position. The NMFA contracted with Ralph Andersen & Associates to recruit candidates for the CEO position. That firm has identified potential candidates from the state and the region. NMFA staff will assist the board in the selection process.

Mr. Gasparich will continue in the position of interim CEO until such time as a CEO is hired, ideally by October or November 2013. Mr. Gasparich also will assist the NMFA with the transition to a new CEO.

In reviewing the steps that the NMFA has taken to hire an internal auditor, Ms. Winter and Mr. Gasparich emphasized the importance of having someone in the position to safeguard against situations such as the 2011 faked audit. The position has been posted in the state twice with no responses from qualified applicants. The next posting will be regionwide. The board identified two vacant staff positions that could be used to supply funding for the salary of the internal auditor. If the position cannot be filled in the near future, the NMFA will continue to contract out some of the audit work to an external auditor. Since that would not be ideal, the NMFA would then continue the search for a qualified internal auditor.

NMFA Updates

Ms. Winter and Mr. Gasparich updated the committee on NMFA audit and board meetings. They provided a handout showing the schedules of the meetings, which have been conducted more frequently since the 2011 faked audit. They also noted that attendance at meetings has improved and that fewer designees stand in for committee and board members. Ms. Winter reported that since certified public accountant Ricky Bejarano, deputy secretary, Department of Finance and Administration (DFA), was appointed to chair the audit committee last year, he has met with the committee at least twice each month. Mr. Gasparich said that Mr. Bejarano regularly reports to the board on the NMFA's progress toward accomplishing report reconciliation goals.

Mr. Gasparich and Ms. Winter provided an overview of NMFA loan and grant data for the past two fiscal years. They explained that the NMFA's capacity to make loans and grants was reduced during the bond rating agencies' placement of NMFA ratings on CreditWatch during the investigation of the 2011 faked audit.

Approval of Minutes

Upon a motion made and seconded, the minutes of the May meeting were approved.

Governmental Gross Receipts Tax (GGRT) Allocations

Cultural Affairs Department (CAD)

Jeff Canney, program evaluator, Legislative Finance Committee (LFC), and Veronica Gonzales, secretary, CAD, discussed pertinent conclusions of an LFC program evaluation of the CAD. For the LFC, Mr. Canney produced a lengthy program evaluation report on capital outlay needs and use of capital outlay funds by the CAD. While no funding sources were recommended or identified, Mr. Canney included in his report, and reproduced for the committee, a pie chart illustrating allocations of the GGRT, which is five percent on certain government revenues. One percent of the GGRT is allocated to the CAD for spending on its 16 museums and historic sites. Seventy-five percent of the GGRT is allocated to the NMFA; 14 percent of the GGRT is allocated to the State Parks Division of the Energy, Minerals and Natural Resources Department; and 10 percent of the GGRT is allocated to the Youth Conservation Corps (YCC). Mr. Canney stated that the CAD's share of the GGRT allocation for its capital needs is inadequate, and the CAD is required to make an annual capital outlay request. He stressed that the CAD needs a steady source of income for capital projects, and he urged the legislature to identify a source.

State Parks Division

Representatives from the State Parks Division — Tommy Mutz, director, Jerome Madrid, deputy director, Byron Pippin, fiscal officer, and Judy Kowalski, bureau chief of the Design and Development Bureau — gave a presentation and distributed a handout on the state parks. They indicated that the GGRT allocation of 14 percent is the only sustainable funding source for capital projects associated with the 35 state parks.

Mr. Mutz presented a slide show and explained how GGRT revenues have been used to improve state park infrastructure. Among other points, he stated that: most state parks manage their own water treatment systems; some parks are energy neutral; recent projects include the extension of some boating ramps to overcome consequences of drought; and recurring revenue for capital projects is vital for recovery from natural disasters.

Mr. Mutz highlighted some State Parks Division operations and initiatives and related data. The division has established a strategic operations and sustainability plan that deals with budget and staffing reductions and increasing demand for services. The plan is available online or by mail upon request. The division also develops park management plans and evaluates proposed capital improvement projects. It recently added new criteria to the evaluation process for 400 proposed projects, which are then ranked and funded accordingly. Mr. Mutz added that adequate funding for state parks and outdoor recreation, an important economic driver, makes state parks more inviting and modern.

YCC

Ralph A. Gallegos, assistant commissioner for special projects, State Land Office, and YCC Commission designee for Commissioner of Public Lands Ray Powell, and Wendy Kent, executive director, YCC, provided a handout presenting an overview of the YCC, including project profiles.

The remainder of the presentation focused on praise for the YCC by George Duda and Sharon Hickey, public members of the YCC Commission; several YCC participants; Timothy Hartman, a teacher from the Robert F. Kennedy Charter High School; Porfirio Chavarria and Michael Saiz from the Santa Fe Fire Department; and Carl Colonius, executive director of the Rocky Mountain Youth Corps. Mr. Colonius identified YCC program objectives as: 1) youth employment and training; and 2) completion of environmental restoration programs. He discussed the valuable contributions that youths have made in those areas. Mr. Hartman talked about two particular YCC projects and how those projects benefited students: that students developed confidence, learned construction and soft job skills and were able to help their families financially. Mr. Chavarria, as a wildland specialist involved in the program, created a wildland training crew that thins the forest and fights fires. Mr. Saiz testified that he learned a lot through the wildland program and that, because of the YCC, he has moved forward in his career.

NMFA

Michael Zavelle, chief financial strategist, NMFA, and Mr. Gasparich spoke about the GGRT allocation to the NMFA.

Mr. Zavelle and Mr. Gasparich highlighted the following information about the Public Project Revolving Fund (PPRF) program in a handout that they distributed.

- The PPRF program has provided nearly \$3 billion in loans, averaging approximately six loans per month since its inception.
- The average loan per capita by region is the highest for the Eastern Plains Council of Governments (COG) region, at \$1,119 per capita, and the lowest for the Southeastern New Mexico Economic Development District COG, at \$376 per capita.
- During the investigation of the 2011 faked audit, the PPRF program was essentially on hold, but the contingent liquidity account was tapped to make loans available to smaller communities that would be incapable of obtaining low-cost loans based on their individual credit ratings.
- Currently, approximately \$21.35 million is available for loans from the PPRF.
- If revenues from the GGRT allocation decline due to recessionary conditions or if the NMFA's allocation is reduced, then the amount of money available to make affordable loans to communities would be reduced.
- Language from a recent Standard & Poor's rating report corroborates the likely effect of a reduction in the GGRT allocation to the NMFA. In the report, the bond ratings agency stated that, had audit-related issues resulted in "a significant reduction in the allocated [GGRT] revenues", the ratings would likely have been lowered. Lower bond agency ratings naturally result in higher interest rates, which, in turn, lead to a reduced capacity to make loans.
- The handout includes a list of PPRF borrowers from across the state and the number of times each has borrowed through the program.

The committee discussed the consequences of adjusting the percentage of the allocation to the NMFA. A member stated that a reallocation of the GGRT still would not cover the CAD's capital needs.

Water Project Fund and Drinking Water State Revolving Loan Fund (DWSRLF) Updates

Mr. Gasparich and Jana Amacher, director of water resources, NMFA, discussed the NMFA's water-related programs. Their handouts provide an overview of the DWSRLF and the Water Project Fund programs.

Ms. Amacher highlighted the federal capitalization grant aspect of the DWSRLF program. She indicated that current funding from a federal allotment based on population and from a state match is inadequate to satisfy all of the requests for loans. Last session, a state match required for the federal allotment was secured through an appropriation bill. Ms. Amacher added that the federal government may forgive portions of loans taken by poorer communities.

Ms. Amacher reviewed the new application process for communities that apply for funding from the Water Project Fund. One of the benefits of the new process is that a complete list of all initial applications submitted will be presented to the committee during the interim.

Governor Richardson's Investment Partnership (GRIP) Bond Program Implementation

Tom Church, secretary-designate, Department of Transportation (DOT), Mr. Zavelle and Mr. Gasparich discussed the content of a handout on the GRIP bond program. Secretary Church stated that the DOT has taken certain measures over the last three years to reduce its borrowing costs. The chart on page three of the handout shows the annual debt service by revenue source, and it reflects the expiration of a federal Department of Energy grant for the Waste Isolation Pilot Plant. The chart on page four illustrates the impact of refinancing on debt service in fiscal year (FY) 2016 and a reversal in the level of payments from federal and state sources in FY 2015 and FY 2016. Representative Lundstrom requested that the presenters show the page four chart to the Transportation Revenue Infrastructure Subcommittee at its August 28 meeting.

Referring to page six of the handout, which discusses the structure of fees paid by the DOT to the NMFA, the presenters indicated that the NMFA is currently exempt from depositing half of the administrative fee that would otherwise be paid to the Local Transportation Infrastructure Fund. For the reduction in payment to continue, similar language would need to be reenacted. Representative Herrell made, and Representative Powdrell-Culbert seconded, a motion that was unopposed to endorse the quoted language and forward it to the LFC for its recommendation to incorporate it into House Bill (HB) 2.

Secretary Church informed the committee that HB 391 (2013 session), which would have changed the bond issuer name from the NMFA to the State Transportation Commission, will not be reintroduced, due to the significant costs and projected benefit-neutral consequences of such a name change.

A committee member raised a concern about the lack of collection of in-state trucking fees. The committee member asked that the DOT remedy the situation and maximize collection of fees.

Bond Issuer Pricing Approval and Senate Bill (SB) 346 (2013 Session)

Mr. Gasparich and Mr. Zavelle discussed SB 346 (2013 session). According to Mr. Zavelle, a coalition of bankers and law firms supported the bill. It was tabled during session to allow the NMFA Oversight Committee to review it during the interim. The handout contains a reprint of SB 346 and an outline of the purposes of the bill, primarily that a designee for a bond issuer may approve bonds on that issuer's behalf.

Taos County Administrative/Judicial Complex Funding

Rick Martinez, director of business development, NMFA, provided a handout about two NMFA-funded projects: the Taos County Administrative/Judicial Complex and the Town of Taos's Alexander Gusdorf Eco-Park. In addition to some U.S. Department of Agriculture (USDA) funding and a state appropriation, the county received two loans totaling over \$34 million to build the administrative/judicial complex.

Tour of Taos County Administrative/Judicial Complex

The committee toured the newly completed Taos County Administrative/Judicial Complex. The building was designed in New Mexico's pueblo and territorial styles. The 137,753-square-foot building includes a county commissioners' chamber, district courtrooms, magistrate courtrooms, administrative offices and separate detention facilities for adult males, adult females, juvenile males and juvenile females.

Recess

With no further business for the day, the meeting recessed at 4:45 p.m.

Tuesday, August 27

Representative Lundstrom reconvened the meeting at 9:03 a.m.

Electricity Transmission Needs

Toney Anaya, former governor of New Mexico, Phillip G. Harris, CEO, and Adrienne Smith, vice president of administration, Tres Amigas, LLC, and Julia Frayer, managing director, London Economics International, LLC, informed the committee about a Tres Amigas plan to improve energy transmission.

Governor Anaya outlined the situations that the project is intended to address. First, the state needs more electricity capacity and lacks needed connections to larger electrical networks. Since much of New Mexico is marked by low population density and long distances between people and places, building transmission lines using traditional technology to make these connections has been impractical. Second, New Mexico has vast, untapped renewable energy

resources, but, because its low population base cannot support the capital costs of developing infrastructure, potential profits from energy exportation are not being realized. Energy must be exported for production to be profitable, Mr. Anaya asserted. In order to export energy, one or more connections to larger networks must be in place.

Mr. Harris testified that Tres Amigas will attract private developers to finance a project to bury high-voltage direct-current lines that would connect major regional hubs: Four Corners (Western Interconnection) and Eddy County (Texas Interconnection). A potential obstacle to the project's development, Mr. Harris testified, is securing the rights of way through the multijurisdictional areas that the proposed lines would occupy. To address this situation, he asked that committee members examine the Public Utility Act and research available rights of way. Mr. Harris also asked the committee to endorse laws to make aspects of project development less uncertain. In other words, a committee member summarized, Mr. Harris was asking for regulatory changes.

Mr. Harris indicated that a percentage of the fee assessed on users of the direct-current transmission line could be distributed to the state. Ms. Frayer discussed the economic growth that the project, if implemented, could spur in the state.

According to Mr. Harris, direct-current technology is used in many other countries, while alternating-current technology is the predominant technology in the United States.

An audience member, David Getts, general manager, Southwestern Power Group II, questioned whether burying lines is cost-effective and realistic. He said that his organization conducted a study to determine the costs of burying alternating current for two miles under the Rio Grande. When all relevant factors were considered, the cost was too high to move forward. Mr. Getts added that he did not know whether burying direct-current lines would be equally costly.

Another audience member, Keith Sparks, director of development, Clean Line Energy Partners, also testified that, to his knowledge, burying high-voltage lines has not been deemed feasible.

Representative Powdrell-Culbert made, and Representative Gonzales seconded, a motion that was unopposed to create the Energy Transmission Working Group to examine in greater detail the possibility of increasing energy transmission capacity in the state. Committee members of the working group include Representatives Baldonado, Clahchischilliage, Crook, Fajardo, Gonzales, Hall, Herrell, Lundstrom, Powdrell-Culbert, Rodella, Sandoval and White and Senator Griggs.

New Mexico Renewable Energy Transmission Authority (NMRETA) Update

Jeremy Turner, executive director, NMRETA, and Angela Gonzales-Rodarte, assistant director, NMRETA, distributed a handout and presented information on the NMRETA's

background, funding and goals. The state appropriated \$1 million to the NMRETA at its inception and made additional appropriations for the next two years, after which the NMRETA made no request for funding for three consecutive years. Meanwhile, over \$800,000 has been received from private sources. According to Mr. Turner, the NMRETA intends to achieve self-sufficiency by reducing operational costs and continuing to support projects such as High Lonesome Mesa, Lucky Corridor, LLC, and Western Spirit-Clean Line. However, the NMRETA will request a general fund appropriation for operational costs for FY 2015.

In outlining the NMRETA's goals, Mr. Turner stated that the authority had commissioned Los Alamos National Laboratory to conduct a high-level study on energy transmission concepts, economic benefits and cost allocation and to provide a 20-year plan. The NMRETA proposes to update the study and will need an appropriation to do so.

A committee member asked whether the proposed New Mexico Express project would conflict with projects that the authority oversees. Mr. Turner and Ms. Gonzales-Rodarte conceded that there could be possible conflicts, since many entities are vying for the same capacity but that potential for synergies also exists. Mr. Turner indicated that he and Ms. Gonzales-Rodarte have communicated with representatives from Tres Amigas about the New Mexico Express project.

Colonias Infrastructure Funds and Severance Tax Bond Proceeds

Mr. Martinez discussed issues and presented handouts concerning the colonias infrastructure funds (CIF), including a memorandum discussing the effect of Executive Order 2013-006 on 2013 CIF project awards; a handout about communities with colonias-type conditions that currently do not qualify as colonias because they are located more than 150 miles from the Mexican border; and a table of projects recommended for funding.

On the topic of project awards and the executive order, Mr. Martinez reported that:

- the executive order establishes uniform criteria, grant management and oversight requirements for money issued by state agencies to other entities;
- the DFA delayed the sale of bonds in the CIF 2013 funding cycle;
- the NMFA set an October 1 deadline for applicants to comply with the executive order;
- fifty-nine applications were submitted, one of which did not meet eligibility criteria;
- the CIF board recommended, and the NMFA approved, 37 projects for funding, which is derived from five percent of senior lien bond proceeds of severance tax bonds (over \$16 million); and
- five projects were funded through the USDA and the federal Department of Housing and Urban Development/Community Development Block Grant (almost \$25 million), entities with which the NMFA coordinates.

On the topic of the definition of "colonias", Mr. Martinez gave an overview of, and a handout listing, state and federal funding sources available to communities that do not meet the definition because they are located more than 150 miles from the Mexican border.

In response to a committee member's questions, Mr. Martinez described the NMFA's efforts to reduce duplicative funding of colonias projects from multiple sources, including capital outlay appropriations.

Adjournment

There being no further business before the committee, the meeting adjourned at 11:55 a.m.